



County of Los Angeles CHIEF ADMINISTRATIVE OFFICE

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Fifth District

June 24, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

STATE LEGISLATIVE UPDATE

State Budget Update

Senate Fails to Pass Budget Bills

The State Senate yesterday took up AB 1769, a "compromise" budget bill drafted by the Democratic majority. After a couple of hours of spirited, sometimes contentious debate regarding the reasons for the State's budget problem and the disastrous cuts that would be required without a tax increase, the bill was defeated on a party-line vote. The Senate then took up AB 1766, a companion bill authorizing the sale of approximately \$10.3 billion in deficit bonds, as well as a temporary .5 percent sales tax to pay for them. It was also defeated on a party-line vote.

The two-bill package did not include the Governor's realignment proposal or the income and cigarette tax increases that funded it. As a result, it reflected deeper savings than previous Democratic budget proposals and resulted in total savings of some \$6 billion below the current year. Nevertheless, Republicans said the budget solution amounted to the largest tax increase in State history - some \$8 billion when the \$4.2 billion VLF increase and \$1.4 billion in fee increases are added to the \$2.4 billion temporary sales tax increase.

As for the rumored cut of \$1.1 billion for local governments, the bill eliminated the continuing appropriation for the VLF backfill which, given the time lag before higher rates will take effect, would cost local governments some \$900 million in lost revenue.

When added to an ERAF contribution by community redevelopment agencies, the local government contribution to the budget solution would have been over \$1 billion.

Some other provisions of interest to the County contained in the Senate budget bill and related trailer bills include:

- the Governor's proposed ERAF contribution by community redevelopment authorities was reduced from \$250 million to \$125 million and limited to one year;
- \$69 million of Federal education funds were appropriated for reimbursement of mental health services provided to special education students, with half for the current year and the balance for the budget year;
- COPS/Juvenile Justice grants were cut by \$32.6 million, High Tech Equipment Grants were eliminated for a savings of \$18.5 million and Local Corrections training was cut \$16 million; and
- six mandates that have been suspended for years were eliminated.

The proposal assumes \$855 million in savings to be achieved from reduced employee compensation costs, if necessary, through the elimination of up to 13,000 permanent positions. In addition, it retreats from earlier Senate actions which utilized some of the Medi-Cal savings from the enhanced federal match that is part of the recently enacted Federal fiscal relief. Instead, it designates all the relief funds for a Federal Trust Fund, and authorizes the Director of Finance to utilize the general government relief to reduce any general fund expenditure to achieve budget savings, but permits him to reallocate savings from the enhanced Medicaid match to any general fund appropriation.

In his closing speech, right before the vote, Senator Burton admitted that the bill would not receive the two-thirds vote needed, but that it was necessary for both sides "to do what they needed to do." For Democrats that seemed to be to establish that there would have been a budget in place by July 1, 2003, but for the refusal of Republicans to vote for it. For Republicans that seemed to be to once again prove that they are against any and all tax increases. After the vote, Senator Burton expressed frustration at the outcome and said there would not be a budget deal before the new fiscal year starts next Tuesday. According to newspaper accounts, the Governor is now predicting a budget by the legislature's scheduled summer recess on July 18, 2003. The Assembly is scheduled to undertake the same "drill" on Thursday with a different budget bill containing a \$500 million cut to local governments.

In the meantime, preparations are underway to prepare for the confusion and disruption that occurs whenever the Legislature fails to adopt a budget by the beginning of the fiscal year and certain payments have to be stopped or reduced, including the paycheck

of State employees. This year's non-payment problem may be a little messier than usual because of higher than budgeted costs in health and human services in the current year, mostly in Medi-Cal. Republicans are refusing to vote for a deficiency bill to fund the shortfall, which may have resulted in some institutional providers missing reimbursement payments already.

VLF Notice Period

The Governor's budget assumes the elimination of the VLF backfill starting July 1, 2003. Because of administrative and programming changes and a provision in current law requiring that vehicle owners receive a VLF renewal notice two months in advance, it was unlikely local governments would begin to receive the increased revenue before October 1, 2003. Senator Tom Torklason, Chair of the Senate Local Government Committee, had indicated that he would attempt to amend a bill on the Senate floor to reduce the notice period to one month, which would reduce the "gap" loss to local governments by over \$300 million. The savings to the County would be \$63 million. According to our Sacramento representatives, Senator Torklason will not pursue his amendment because of opposition from Republicans.

Assembly Mandates Committee

The Committee met again on Monday, June 23, 2003, and acted on the following mandates:

Substandard Housing: referred to the Housing Committee for comment and recommendation;

Structural and Wildland Firefighter Safety Clothing and Equipment: though this mandate was funded in 1997, the committee recommended that it be made a local option;

Investment Reports: recommended that the statute be amended to encourage, but not require, cities and counties to develop an annual statement of investment policy and prepare a quarterly report of investments;

County Treasury Oversight Committee: recommended that the statute be amended to encourage, but not require, Oversight Committees; and

Local Coastal Plans: recommended that this Coastal Commission mandate be suspended.

The Committee had to adjourn before it could complete its work.

Status of County-Interest Legislation

County-supported AB 355 (Pacheco), which would amend the Welfare and Institutions Code definition of escape from custody by a juvenile to include escape or attempted escape from a regional facility, a privately owned facility, or from a field trip site, passed the Senate Public Safety Committee on June 24, 2003 on a vote of 5 to 0, and will be sent to the Senate Appropriations Committee.

County-sponsored AB 1153 (Bermudez), which would criminalize the unauthorized use, manufacture, or sale of any official State, county, city, city and county, or agency badge and/or associated photographic identification, received a non-substantive Author's amendment and passed the Senate Public Safety Committee on June 14, 2003 on a vote of 5 to 0. It will now go to the Senate Appropriations Committee.

We will continue to keep you advised.

DEJ:GK
MAL:JR:ib

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